

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-10 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-10 IO-13 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
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R 251025Z JUL 78
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 8332
INFO AMEMBASSY PARIS
AMEMBASSY MANILA

C O N F I D E N T I A L SECTION 1 OF 2 ISLAMABAD 7252

PARIS FOR USOECD

MANILA FOR ADB

E.O. 11652: GDS
TAGS: EGEN, PK
SUBJECT: PAKISTAN'S FIFTH FIVE YEAR PLAN: NO BLUEPRINT FOR THE
FUTURE -- SOME SUGGESTIONS

REF: (A) ISLAMABAD 5159, (B) ISLAMABAD 6998, (C) PARIS 17859

1. PAKISTAN'S FIFTH FIVE YEAR PLAN (1978-83), INTRO-
DUCED JULY 3 SHOWS NO IMPORTANT DIFFERENCE FROM THE
SUMMARY DRAFT FIVE YEAR PLAN GIVEN TO CONSORTIUM
AMBASSADORS IN MAY (REF A). SECTORAL ALLOCATIONS,
PRODUCTION TARGETS, MONETARY PROGRAMS AND BALANCE OF
PAYMENTS PROJECTIONS ARE ALMOST IDENTICAL.

2. A COMPARISON BETWEEN PLAN AND BUDGETARY ACTION IS
DISAPPOINTING. WE HAVE ALREADY REPORTED (REF B) THAT THE
PFY 78-79 BUDGET DOES NOT TAKE SIGNIFICANT STEPS TOWARDS
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IMPLEMENTATION OF THE PLAN. THE PLAN SHOWS A PROPER
SHIFT TO AGRICULTURAL AND BASIC HUMAN NEEDS BUT THE
FIRST BUDGET UNDER THE PLAN -- WHICH MUST IMPLEMENT
IT -- MARCHES THE OTHER WAY. THE ONLY PLAN OBJECTIVE
MET BY THE BUDGET IS ACCELERATED FINANCING OF THE
KARACHI STEEL MILLS.

3. ALTHOUGH A GOOD PLAN IS BOUND TO BE OPTIMISTIC AND OVERESTIMATE WHAT IS LIKELY TO BE ACHIEVED, PAKISTANI PLANNERS SEEM TO HAVE WORKED IN AN HISTORICAL AND INSTITUTIONAL VACUUM THAT DEPRIVES THE PLAN OF CREDIBILITY. THE PRIORITY STRUCTURE OF THE PLAN EMPHASIZES EVERYTHING AT ONCE, AGRICULTURE, INDUSTRY, AND BASIC HUMAN NEEDS AND PROMISES GROWTH WITH EQUITY. HOWEVER, GIVEN THE REALITIES IN PAKISTAN IT IS DIFFICULT TO SEE HOW THIS SOMETHING-FOR-EVERYONE SCHEME CAN BE ACCOMPLISHED. GNP IN CONSTANT, 1959-60, PRICES IS FORECAST TO GROW AT 7 PERCENT PER YEAR, COMPARED TO A 1950-70 AVERAGE OF 4.9 PERCENT. EVEN DURING THE "GOLDEN WAVE" OF THE SIXTIES, GROWTH, WHICH WAS ACCOMPLISHED WITH THE HELP OF INCENTIVES LEADING TO A MISMATCH OF THE INCREASED INCOME WHICH WOULD BE UNACCEPTABLE IN POST-BHUTTO PAKISTAN, WAS 6.3 PERCENT, STILL SHORT OF THE PLAN'S PROJECTION. THE PLANNERS HOP TO ACHIEVE A 25 PERCENT MARGINAL SAVINGS RATE WHICH THEY SAY WAS ACHIEVED DURING THE SIXTIES. HERE AGAIN THE INCENTIVES THAT WORKED DURING THE SIXTIES ARE NOT COMPATIBLE WITH A GROWTH-WITH-EQUITY PHILOSOPHY.

4. THE ECONOMETRIC MODEL USED BY THE PLANNERS SEEMS TO LACK A STOCHASTIC VARIABLE TO ALLOW FOR EVER-PRESENT DISTRIBUTION BOTTLENECKS AND CHRONIC BUREAUCRATIC SNARLS WHICH PREVENT INPUTS FROM ARRIVING IN A

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TIMELY FASHION AND COMPLICATE THE PRODUCTION PROCESS. AS SUCH THE MODEL HAS NO CHANCE OF BEING SUCCESSFUL EVEN AS A GUIDE AS TO WHAT TO DO AND WHEN.

5. IT WILL BE RECALLED (REF C) THAT THE PARIS CONSORTIUM MEETING IN JUNE PLACED HEAVY STRESS ON A PLAN AND A BUDGET THAT WOULD OFFER SOME HOPE OF PROPELLING PAKISTAN OUT OF THE ECONOMIC DOLDRUMS. THE STATUS QUO BUDGET AND UNREALISTIC PLAN WILL DO LITTLE TO SATISFY THE CONCERNS EXPRESSED IN PARIS. THE FACTS ARE THAT THE MARTIAL LAW GOVERNMENT IS FACING INWARD AND, KNOWING ITS OWN POWER BASE TO BE WEAK, HAS SO FAR BEEN UNWILLING TO TAKE THE UNPLEASANT MEASURES NECESSARY TO MOVE THE ECONOMY OFF DEAD CENTER AND BEGIN REMOVING DISTORTIONS. IN FACT, BY GREATLY INCREASING SUBSIDIES, WITH THE AIM OF KEEPING WHEAT PRICES LOW IN URBAN RATIONS SHOPS, THE GOVERNMENT WASTES LIMITED BUDGET REVENUES THAT COULD BE PUT TO PRODUCTIVE USES. THE VAST SUM INVESTED IN THE SLOW PAY-OFF STEEL MILL THIS YEAR WILL HAVE A SIMILAR EFFECT OF WASTING SAVINGS.

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C O N F I D E N T I A L SECTION 2 OF 2 ISLAMABAD 7252

PARIS FOR USOECD

MANILA FOR ADB

6. THE TASK BEFORE THE DONORS IS TO GET THE FOCUS
OF PAKISTANI LEADERS BROADENED FROM THEIR OBSESSION
OVER IMMEDIATE POLITICAL SURVIVAL (ZIA HAS EXPRESSED
CONCERN FOR HIS LIFE AS WELL) TO THE PROPER MANAGEMENT
OF PAKISTAN'S ECONOMY. IMPLICITLY, AT LEAST, PAKISTAN'S
LEADERS DO NOT THINK THEY MUST TRADE-OFF THE RISK OF
DOMESTIC UNREST AGAINST THE RISK OF DONORS TURNING
OFF THE TAP. THEY PROBABLY ARE RIGHT THAT DONORS WILL
NOT ABANDON PAKISTAN TO EXTERNAL BANKRUPTCY AND
INTERNAL CHAOS NO MATTER HOW MUCH UNCOMFORTABLE RHETORIC
EMERGES ABOUT PAKISTAN'S DISMAL PERFORMANCE AT DONOR
FORUMS. NONETHELESS, SOME WAY MUST BE FOUND TO CON-
VINCE PAKISTANI LEADERS TO PAY MORE ATTENTION TO LONG
RANGE CONCERNS SO THAT THEY ARE NOT CONTINUALLY FACED
WITH SHORT-TERM CRISES. THE CONVINCING WILL HAVE TO
BE DONE BY THE OUTSIDE WORLD. DOES IT REQUIRE CON-
VEYING AN UNDERSTANDING THAT PAKISTAN WILL RECEIVE
MORE -- AND MORE APPROPRIATE -- ASSISTANCE FROM THE
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OUTSIDE WORLD IF IT MAKES THE PAINFUL POLICY SHIFTS
THAT WOULD MAKE IT AN ATTRACTIVE AID RECIPIENT THAN
IT WILL RECEIVE IN FOREIGN ASSISTANCE FROM RECURRING BAILOUT
OPERATIONS.

7. IT IS NOT TOO LATE: THE PLAN CAN BE AMENDED,
AND THIS YEAR'S FORECAST BUDGET
WILL UNDERGO REVISION
DURING THE YEAR. THE TASK IS TO TRY TO NUDGE THE
AMENDMENTS AND THE REVISIONS THE RIGHT WAY. WE AND
THE OTHER DONORS MUST LOOK FOR LEVERS TO CONVINCE
THEM OF OUR SERIOUSNESS. WE BELIEVE THERE ARE SEVERAL
LEVERS WHICH COULD BE USED TO INDICATE THE GRAVITY OF
OUR CONCERNS AND PERHAPS PRESSURE THE GOP INTO ACTION.
THE FORTHCOMING MEETING OF FOOD DONORS IN WASHINGTON
IS ONE FORUM IN WHICH WE AND OTHER DONORS CAN ARGUE
FOR MORE REALISTIC PROCUREMENT PRICES AND OTHER
MEASURES TO IMPROVE FOOD PRODUCTION AS A PRICE FOR
THE FOOD PAKISTAN SO URGENTLY NEEDS. TYING WHEAT
AVAILABILITY TO POSITIVE PERFORMANCE IN FOOD PRODUCTION
IS PERHAPS OUR MOST POWERFUL LEVER. PERIODIC REVIEW
MEETINGS TIED TO WHEAT TRANCHES COULD INSURE PAKISTANI
COMPLIANCE WITH PROMISES MADE I KEARLIER
DISCUSSIONS. OUR AID PROGRAM, ASSUMING THERE WILL BE
RESUMED AID IN THE NEXT FISCAL YEAR, COULD ALSO
TIGHTEN ITS CONDITIONS PRECEDENT ON THE FERTILIZER
LOAN. OTHER LEVERS SHOULD BE DEVELOPED IN CONCERT
WITH CONSORTIUM DONORS, TO MAKE IT CLEAR TO THE GOP
THAT WE ARE WILLING TO HELP, BUT THAT THERE IS A
LIMIT TO HOW LONG, IN A WORLD WHERE THERE IS COMPETITION
FOR SCARCE RESOURCES, DONORS WILL BE WILLING TO
TYHROW GOOD MONEY AFTER BAD. HUMMEL

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